



Bad debt

Lesson code: CKAM-R7ND-V5GN

INTERMEDIATE

1 Warm up

What is 'bad debt'? Does your business sometimes suffer from bad debt? If so, how?

2 Vocabulary - Key words

Match the underlined words to their definitions below.

1. Our debtors owe us a lot of money.
 2. He was able to get the loan because he owns a lot of personal assets.
 3. During the economic downturn, many businesses were unable to survive.
 4. If Joe is unable to pay his debts, he will go bust.
 5. Because of the boycott from consumers, the company's sales went down.
 6. Sometimes big companies bully smaller companies to get what they want because they know smaller companies are weaker.
 7. Big firms usually have plenty of cash reserves, so they usually don't have problems paying bills.
-
- a. a person or company who owes money
 - b. a reduction in the success of a business or economy
 - c. a supply of something that is not needed for immediate use but available if required
 - d. go bankrupt
 - e. property owned by a person
 - f. refusing to buy from a company or country as a way of protesting
 - g. use their strength to influence other people

3 Find the information

You are going to read an article about how bad debt is affecting small businesses in the UK and what can be done about the problem. Read the first five paragraphs and complete the statements.

1. _____ per cent of small businesses say that late payments are a major issue.
2. Small businesses were owed _____ in late payments.
3. _____ in five companies go bust because of bad debt.
4. _____ in five companies have refused to do business with late payers.





Beating the late payers

New research suggests that many companies are getting tough with late payers.

Adapted from The Independent, by David Prosser, 28 January 2013

- 1 How do small and medium-sized enterprises deal with persistent late payers that damage their cashflow and make it difficult to survive?
- 2 There is no doubt that late payments continue to be a problem -- 85 per cent of small businesses say it has been a major issue over the past two years, while nearly half say their most consistently difficult debtors are paying late three times a year or more. According to the payments organisation, Bacs, small businesses in the UK were owed £36bn in late payments.
- 3 We know how difficult late payments can be. Data suggests that one in five small businesses go bust because of bad debt. And business owners that survive often have to use their own funds or borrow against their personal assets, while waiting for payment.
- 4 There are some things that business can do to protect themselves -- conducting credit checks on customers, chasing bad debts more efficiently, or demanding payment upfront. But the problem still exists and has got steadily worse during this economic downturn.
- 5 We may soon see a new stage in the war, however. Many companies are now simply refusing to do business with their most persistent late payers. One in five companies say that over the past year they have refused to do business with customers who have paid late in the past.
- 6 This is the extreme option, of course. But in the end, if a customer is prepared to do financial damage to a business by repeatedly not paying their bills on time, what other choices do owners have?
- 7 If more small businesses take this approach, it is likely to be more effective -- especially if they work together. A customer that knows its business won't be accepted anywhere if it fails to pay on time is much more likely to be a timely payer.
- 8 It's a small world out there. In many industries, small businesses know their competitors and their customers very well. By working with each other, they can produce a "blacklist" of customers who won't settle their bills.
- 9 This could work with smaller customers. Bigger businesses, however, are less likely to feel threatened by a boycott from one sector or area of the country.
- 10 If the campaign is organised effectively, however, it should be possible to take on even the largest organisations.
- 11 For small businesses, the culture of late payments creates two problems: firstly, they are more likely to be treated poorly because bullying the small guy is the easy option. Secondly, they are less likely to have the cash reserves needed to cope with the situation. And if customers pay your business late, it becomes harder to settle your own bills on time.
- 12 By working together, however, small businesses can take much more aggressive action, and they should not hesitate to do that. The late payments cycle is damaging everybody's business -- as well as the wider economy.



4 Phrases from the text

What can small businesses do to cope with late payments? Read paragraphs 3-5 again and complete the phrases below with the infinitive form of verbs from the text:

1. conduct credit checks on customers
2. _____ against personal assets
3. _____ bad debts more efficiently
4. _____ payment upfront
5. _____ to do business with customers who have paid late in the past

Which of these actions do you think are more effective?

5 Checking understanding

Read the rest of the article and put 'T' (True) or 'F' (False) next to the statements below. Explain why the false statements are wrong.

1. Small businesses can deal with the problem of late payments more effectively if they work together.
2. Most small businesses cannot know which of their customers are likely to be late payers.
3. Boycotts work well for all types of customers.
4. It is impossible to beat the largest organisations.
5. Large companies are more likely to treat small companies badly.
6. Small companies often do not have the cash reserves to cope with bad debt.
7. Late payments are only damaging to small businesses.

6 Find the word

Find a word or phrase in the text which means:

1. not soft (*adjective, SUBTITLE*) _____
2. continuing to behave in a certain way, stubborn (*adjective, P1*) _____
3. not late (*two-word phrase, P6*) _____
4. at the right time (*adjective, P7*) _____
5. deal with, manage (*phrasal verb, P10*) _____
6. pay what you owe (*verb, P10*) _____
7. pause before you do something, often because you are uncertain or nervous about it (*verb, P11*)



7 Chasing payments

Look at the four emails. Put them in order from 1 (least aggressive) to 4 (most aggressive).

Email 1

Hi John,
Payment still hasn't been made for invoice 33. I attach another copy with my payment details.
Just to remind you - if payment is not received within 30 days, I reserve the right to add late payment charges to your account.
Regards,
Adam

Email 2

Hi John,
This is a friendly reminder that invoice 31 is now due for payment. I'd really appreciate it if you could settle at your earliest opportunity.
Regards,
Adam

Email 3

Hello Jack,
We note from our records that you still have not paid our invoice 33. Could you transfer the outstanding amount as soon as possible?
Best Regards,
Tamara Jones

Email 4

Hi John,
Payment still hasn't been made for invoice 33. I attach another copy with my payment details.
If payment is not received within 7 days, we will have no choice but to start legal proceedings to recover the debt.
Regards,
Adam



8 Talking point

Discuss any of the following questions

1. Is bad debt a problem in your country?
2. Does your business take any of the actions mentioned in the article?
3. Why do you think businesses pay late?

